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TAGS: [ENRG](#) [EPET](#) [EINV](#) [SENV](#) [PREL](#) [SA](#)

SUBJECT: REINVIGORATING AN ENERGY DIALOGUE WITH SAUDI ARABIA A KEY STEP TO A STRONGER STRATEGIC PARTNERSHIP

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Classified By: Ambassador James B. Smith for reasons 1.4 (b) and (d)

¶1. (C) Summary: Embassy Riyadh believes that the United States would benefit from a direct, senior-level energy discussion with Saudi officials that would clear the air of misperceptions on the Saudi side of our long-term vision for the world's energy future. It would also afford the U.S. an opportunity to hear directly from the Saudis their views of the challenges they face in their own transition away from dependence on oil. We believe this exchange will demonstrate that there are more areas in which we agree than disagree on energy. In the same way that welcoming the Saudis into the G20 strengthened our bilateral relations by demonstrating we view them as a key partner for the future of the world's finances, a high level energy dialogue would reassure the Saudis that we expect them to play a similarly constructive role in the world's energy future. We would know we had succeeded to the degree that we can talk about energy interdependence, vice independence. We welcome the Department's announcement of S/CIEA David Goldwyn as the Department's new coordinator for International Energy Affairs, and would be happy to host him and/or senior Energy Department officials to pursue an energy dialogue with Saudi Arabia in the near future. End Summary.

Common Interests:

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¶2. (C) The United States and Saudi Arabia share a number of common interests on energy. Saudi Arabia is very concerned that international markets develop in a stable and sustainable way that will ensure continued demand for petroleum without the price volatility that is so destructive for both producers and consumers. Saudi officials have been clear and consistent, for example, in their calls for countries not to end their stimulus efforts too soon to avoid a 'double dip' recession; Finance Minister Ibrahim Al-Asaf reiterated this point in a meeting with Ambassador Smith on October 21. The King and Petroleum Minister Ali Al-Naimi have also made it clear that they do not support a run up of prices, contrary to calls from some OPEC members, because it would damage the international economic recovery.

¶3. (C) Saudi officials are quite candid that they understand the world needs to develop a cleaner form of energy for development to be sustainable. Saudis are concerned about rising pollution in their own country, along with rapidly rising demand for electricity, water and gasoline. They agree with us that climate change must be addressed. They share our view that, to deal with climate change, we will all have to cooperate on a range of actions, from using energy

more efficiently and reducing waste, to developing renewable energy where it makes commercial sense. They also support efforts to develop technological solutions that may help remove carbon and other emissions from the atmosphere, and have invested significant sums to develop the necessary technology.

¶ 14. (C) Saudi Arabia is taking steps domestically to put its money where its mouth is. The Council of Ministers recently approved measures to institute differentiated electricity prices to encourage off-peak use. One of the initial technical challenges presented to KAUST is a focus on solar power to address a breakthrough in storage capacity. The government is also looking for ways to encourage the commercial development by the private sector of renewable energy generation within the Kingdom. The Ministry of Petroleum welcomed the G20 ministerial directive to end fuel subsidies, and is already working with the Ministry of Finance to develop the difficult domestic political consensus to implement that decision.

Saudi International Outreach:

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¶ 15. (SBU) Saudi Arabia has been reaching out, supporting efforts to bring producers and consumers together to discuss these issues. King Abdullah personally supported the creation of the International Energy Forum (IEF), for example, as a means of bringing together some of the world's most important non-OECD countries in a forum to increase information about oil and gas production. Although still young, the IEF has already shown some results in terms of

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getting producers to be more transparent and credible in the data they report. They are moving to include information about oil reserves, and are looking at expanding the initiative to gas prices as well. Saudi Arabia has also been a regular participant in climate change technical talks, and has held energy bilaterals with key international partners such as the UK.

Silence from the U.S.

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¶ 16. (C) Saudi Government and Aramco officials are concerned, however, that they have not had a recent opportunity for a high-level energy dialogue with the United States. They have closely watched the new Administration's development of policy on issues like Climate Change. Senior Saudi officials have told us that they are very concerned that Washington is making decisions that materially affect the Kingdom without consulting Saudi officials. Widely publicized articles (e.g., Prince Turki's September Foreign Policy piece) have noted the concern caused by comments from Administration officials calling for U.S. energy independence. Saudi officials were also alarmed by the tone of initial Administration statements calling for a transition to a post-carbon economy, which they inferred we meant to do very soon.

¶ 17. (C) Senior officials have pointed out to us that oil is literally the lifeblood of the Kingdom, and that it is hard for them to react to statements about energy independence calmly. Saudi Arabia faces a number of difficult domestic challenges, ranging from the need to diversify its economy away from its current dependence on hydrocarbons, to satisfying rapid domestic demand increases in electricity (10% per year) and desalinated water, all while finding a way to provide jobs for a rapidly expanding young population. Saudi Arabia's first inclination has been to look to American partners to help meet a number of these challenges.

¶ 18. (C) The lack of a direct dialogue seems to have sent an inadvertent message that we are not factoring in Saudi Arabia into our longer-term thinking about the world's energy

future. This, in turn, is causing angst among our partners, and may be inclining some within the government to hedge Saudi Arabia's long-term bets by balancing its relations with other countries.

Direct Engagement an Opportunity to Reinforce Strategic Partnership:

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¶ 9. (SBU) We believe direct engagement on energy issues that are critical to Saudi Arabia - and to the U.S. - would give us an opportunity to explain directly our vision of the path to a cleaner world. We believe that the Saudis would agree with most of this vision, including the need over the next several decades to transition towards cleaner fuels, including renewables and non-carbon energy. They will want to hear, however, that we expect to work with producers to have a stable transition over that time, which will allow producers to address security of demand concerns and plan their own domestic investments. To the extent possible, they will want to hear us talk about energy interdependence, rather than energy independence. Saudi officials have told us they are very interested in partnerships with the U.S. to develop renewable energy technology and make it commercial (building, for instance, on the multi-year, \$50 million dollar joint King Fahd University of Petroleum and Minerals/MIT cooperative research grant for renewable energy and water research). They would also be very interested in access to U.S. methods of improving energy efficiency, and would welcome U.S. Foreign Direct Investment in their electricity and downstream sectors.

A Note on Nuclear Power:

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¶ 10. (C) Given its difficult choices in terms of meeting domestic electricity demand, we believe that Saudi Arabia will seriously consider building a civilian nuclear plant. The U.S.-Saudi agreement in 2008 on nuclear cooperation was a very important reaffirmation that we want a long-term partnership on energy issues with Saudi Arabia, including in areas that are critical to meet its development plans. It would be useful to demonstrate our continued interest in cooperation in this field by offering talks on technical cooperation, as well as a draft 1-2-3 agreement for their

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consideration. Our continued silence on this issue, after pushing the overall issue of cooperation in 2008, suggests that we may consider the UAE a more important partner on energy and/or that we are willing to abandon the issue of civilian nuclear power in the Gulf to the French. The King has clearly indicated that Saudi Arabia is not willing to wait for us if we are not ready to respond, and will look out for its own interests.

.. and the IEF:

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¶ 11. (SBU) We very much welcomed ref a's statement that the Department will work with the IEF. Although still young, the IEF has already shown some results in terms of getting producers to be more transparent and credible in the data they report, including initiatives to improve information about oil reserves and a proposal to include gas prices as well. The IEF will become more prominent internationally, including as it presents recommendations on how to deal with energy price volatility to the G20. Increased support for the IEF would send a useful message that we embrace its efforts to promote transparency and value its outreach to key partners like China. We would also be sending an equally important message to Saudi Arabia that we support its efforts to be a leader on the international energy stage. In that regard, we believe that it would be useful to begin a new page in our relationship with the IEF (septel on strategy to follow).

¶12. (U) Recommendation: Embassy Riyadh welcomes the Department's announcement of S/CIEA David Goldwyn as the Department's new coordinator for International Energy Affairs, and would be happy to host him and/or senior Energy Department officials to pursue an energy dialogue with Saudi Arabia in the near future.

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